Testimony of
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Mr. Chairman, my name is Larry Graham. I am the president of the National Confectioners Association, and also serve as chair of the Coalition for Sugar Reform. Our coalition includes trade associations like mine, representing the companies that use sugar in confectionery, dairy products, grocery manufacturing and baking. It also includes taxpayer advocacy groups, environmental organizations and consumer groups. Thank you for the opportunity to testify. With me is Tom Earley of Promar International, a prominent agricultural economist specializing in sweeteners, who is available if the committee has technical questions.

The Food Industry: Exports Have Risen

Debate over sugar trade often seems to center around imports. However, it is also an export issue. U.S. food companies compete in a global market and ship their value-added products abroad. Apart from years when commodity price spikes temporarily increase the value of bulk exports, the pronounced trend in U.S. farm and food product trade has been toward a greater share for consumer-oriented products. That means more value is added in the United States, supplying jobs for our citizens and increasing demand for what our farmers and ranchers produce.

As examples of these trade trends, consider that since 1994 –

- U.S. exports of all **consumer-oriented products** have risen from $17 billion to almost $24 billion, a sales increase of 37%.
- Within that category, U.S. **snack food** exports grew by 33%, reaching almost $1.6 billion.
- **Breakfast cereal** exports increased 66%, ending the period at $484 million.
- **Dairy product** exports grew to $1.0 billion, gaining 36%.

These and other processed foods – manufactured by our coalition's member companies and other U.S. firms – are an important part of the trade picture. We know that this committee is interested in expanding agricultural exports, whether in bulk or value-added form, and we applaud your leadership.

Trade: A Two-Way Street

We know that you also understand the need for two-way trade. To buy our products, our customer countries must have foreign exchange to pay for what they buy. One of the ways they generate that foreign exchange is by selling products to us.

For many of these countries – including the developing countries that represent the most exciting growth prospects for U.S. agricultural exports – one of the products they want to sell is sugar. Of course, their ability to do so is limited by U.S. sugar policy, which places strict limits on imports. Some 40 countries now hold quotas to ship defined quantities of sugar – and no more – to the United States every year.

Our coalition is opposed to the present sugar program (though we are not opposed to alternative means of supporting producer incomes). We fully recognize, however, that today's hearing is not about the sugar program but about trade. Therefore, we will confine our discussion to the impacts we believe present sugar policies have on our nation's agricultural trade performance.

Sugar Policy: Detrimental Effects

We believe U.S. sugar policy harms agricultural trade in three ways – two related to exports, one to imports.

First, **sugar import quotas limit the ability of our customer countries to generate the foreign exchange** they would obtain if the U.S. sugar market were more open. Foreign exchange that is never earned cannot be used to buy U.S. products.

Second, **the politics of sugar quotas encourage other countries to withhold trade concessions that might otherwise benefit efficient U.S. farm sectors**. For example, in the Central America Free Trade Agreement, sugar imports will expand but will always be limited by an annual quota, with shipments above that level subject to the same prohibitive MFN tariff that is applied to exports from all other countries (except Mexico). Although our food industry trade associations strongly support CAFTA, we are concerned that because of politics, CAFTA represents less than full free trade in sugar. But of course, in trade negotiations every action can produce a reaction – and it is no coincidence that the Central American countries will maintain perpetual quotas on U.S. white corn exports, instead of fully liberalizing this trade. When Costa Rica subsequently acceded to CAFTA, it too had products such as onions that it wanted to keep quota-bound forever, and did.

Third, **current U.S. sugar import policies have the ironic effect of encouraging more imports of processed products**. In the confectionery industry, the wide gap between U.S. and world sugar prices has created an incentive to move manufacturing capacity offshore, use world-priced sugar to make candy, and ship the product to the United States. It is perfectly legal to import the finished product, but U.S. trade law makes it impossible to import world-priced sugar as the raw material for that product. Now, advocates of the sugar program usually claim that labor costs are what drive these decisions. That claim overlooks the fact that almost all the well-publicized relocations of candy manufacturing capacity have occurred among plants that manufacture hard candies, where the sugar content of the product is highest but labor costs are not much if any different from other types of food manufacturing that have not moved offshore. The sugar lobby's claim also ignores several relocations to Canada – where labor costs are not so different from here, but where you can easily buy world-priced sugar.

Growing Concern in the Farm and Food Sector

It is not just food companies and their trade associations who support the inclusion of sugar in trade agreements. U.S. farmers and ranchers are increasingly aware that keeping sugar out of these agreements is harming their interests. Among the groups that wrote President Bush in support of including sugar in the U.S.-Australia Free Trade Agreement were the American Soybean Association, the California Farm Bureau Federation, the National Corn Growers Association, the National Pork Producers Council, U.S. Wheat Associates, the U.S. Grains Council, the USA Poultry & Egg Export Council, USA Rice and the Wheat Export Trade Education Committee.

An official of the Illinois Farm Bureau – probably that state's most influential agricultural group – had a more pointed comment. She said: "Proposals to exclude sugar … have met with significant opposition from a broad array of U.S. agricultural groups who are tiring of the uncompetitive U.S. sugar industry seemingly hijacking agreements that would provide significant benefits to other agricultural sectors." These are not my words, but comments from one of the largest farm groups in the Midwest.

Benefits from Liberalization

We believe that gradual liberalization of sugar trade through both multilateral and bilateral agreements will bring multiple benefits to the United States. These benefits will include the following:

- **Enhanced competition** in the increasingly consolidated U.S. sugar market, where fewer and fewer vertically integrated sellers control more and more of the available sugar supplies.
- **Better export opportunities** for those segments of U.S. agriculture that are capable of competing in export markets. For example, it is clear from the negotiating history of CAFTA that the inclusion of sugar prevented the Central American nations from completely excluding several agricultural commodities of export interest to the United States, and permitted more rapid and complete trade liberalization in Central American agriculture.
- **Potentially positive employment effects**, to the extent that any marginal decrease in the artificial gap between U.S. and world prices may serve to reduce incentives to relocate confectionery production offshore in order to take advantage of world-price sugar.
- **The generation of foreign exchange** which our trading partners can use to buy U.S. agricultural and industrial products.
- **Benefits to consumers**, consistent with previous analytical work by the International Trade Commission, which found substantial welfare losses to the U.S.

economy from the sugar program, and net benefits to the economy from reforming the program.

We favor multilateral liberalization through the Doha Development Round of global trade talks. However, we believe the U.S. farm and food sector also has much to gain from bilateral or regional agreements. We support the inclusion of sugar in these agreements as well.

It is ironic that supporters of the sugar program have launched such furious attacks on trade agreements like CAFTA, when the CAFTA negotiators went out of their way to make its sugar provisions modest and gradual. In its first year, CAFTA will permit the import of an additional 109,000 metric tons of sugar. This amount represents --

- **Less than 1% of total supply** in the current 2003/04 marketing year;
- **About 7% of total imports** and **5% of ending stocks** for 2003/04; and
- Only about **four days'** sugar utilization in the United States.

If a supply increase of less than 1% threatened the very survival of an entire industry, that would say something disturbing about the competitiveness of that industry. In fact the amounts of sugar in CAFTA do not even remotely threaten the U.S. sugar industry or the sugar program.

We should carry out our agricultural trade policies with due regard for the needs of all commodities, including sugar. But we should not allow a single commodity to hold back the rest of U.S. agriculture. We encourage this committee to support the inclusion of all commodities in all trade agreements, so that all parts of our nation's farm and food industries can benefit from expanded trade opportunities.

Mr. Chairman, thank you for the opportunity to testify today.